

BOE Varitronix (710 HK)

CMBI Corp Day takeaways: large-size/high-end display demand, Chengdu plant and overseas orders

We hosted BOEVx at CMBI Technology Corporate Day on 26 Jun. Overall, mgmt. expects larger and high-end displays remain the major upgrade trend and BOEVx is well positioned to benefit given its industry leadership position. Mgmt. guided overall sales growth to outperform the market and NPM recovery on track in FY24E driven by ASP hikes, better operating efficiency, overseas orders and rapid growth of system products. Trading at 6.5x/5.7x FY24/25E (1-sd below avg.), we think the stock's risk-reward is attractive. Maintain BUY with TP of HK\$10.94 based on 15x FY24E P/E.

■ **Large displays and high-end display products to drive ASP/NPM recovery; system biz maintains high growth.** Mgmt. believes large displays, high-end displays and more complex modules remain the major upgrade trends, and reiterated guidance of 8%+ YoY sales growth, outperforming the industry average of 4% YoY. Specifically, mgmt. expects high-end products (Oxide/LTPS/OLED) to achieve 200%+ YoY growth with a rising sales contribution in FY24E. In addition, mgmt. stated overseas demand for high-end products is rapidly growing, and is positive on large displays and high-end products to drive ASP upside and NPM recovery. For system business, mgmt. guided 100%+ YoY growth in FY24E with sales contribution to exceed 5%/5-10% in FY24/25E. Mgmt. also expects overseas market will achieve double-digit growth on overseas project wins.

■ **Chengdu plant update: full capacity of 15mn+ pieces/month; Expect UTR to recover on a stabilising market in 2H24E.** Mgmt. shared latest updates on Chengdu plant progress and key highlights include: 1) the plant is now running at full capacity with over 15mn pieces/month; 2) no new depreciation added to the plant; 3) 1H24 UTR is less than 100% due to production line shifting to small and rush orders (rather than demand slowdown) and mgmt. expects UTR to recover once the market stabilizes in 2H24E.

■ **NPM expected to recover in 2H24E; Maintain BUY.** Overall, while macro weakness and customers' order slowdown will weigh on 1H24E profit, we expect margin recovery in 2H24E given less domestic capacity investment, better operation efficiency at Chengdu plant, ASP upside and more order wins on Parentco support. Maintain BUY and our TP of HK\$10.94 is based on 15x FY24E P/E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	10,722	10,760	11,699	13,067	14,372
YoY growth (%)	38.6	0.4	8.7	11.7	10.0
EBITDA (HK\$ mn)	841.0	771.0	865.7	947.7	1,071.0
Net profit (HK\$ mn)	582.5	475.3	573.5	657.7	748.1
YoY growth (%)	77.7	(18.4)	20.7	14.7	13.7
EPS (Reported) (HK\$)	0.78	0.60	0.73	0.84	0.95
Consensus EPS (HK\$)	0.78	0.65	0.90	1.26	0.00
P/E (x)	6.1	7.9	6.5	5.7	5.0
P/B (x)	0.4	0.4	0.5	0.3	0.4
Yield (%)	513.9	401.0	458.7	526.0	561.4
ROE (%)	15.6	11.1	12.4	13.0	13.5
Net gearing (%)	1.3	27.5	(45.8)	22.3	(42.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$10.94
Up/Downside 129.3%
Current Price HK\$4.77

China Technology

Alex NG

(852) 3900 0881
 alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	3,777.8
Avg 3 mths t/o (HK\$ mn)	10.9
52w High/Low (HK\$)	12.52/4.40
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

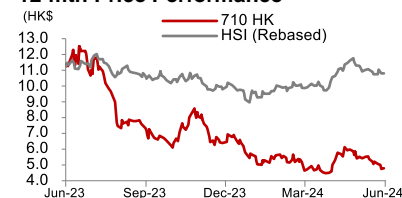
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.8%	-8.2%
3-mth	0.6%	-7.6%
6-mth	-25.4%	-32.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- 1) Focus on high-end demand and overseas demand to drive recovery – 27 Mar 2024 ([link](#))
- 2) Positive on shipment recovery and capacity expansion in 2H23E – 24 Aug 2023 ([link](#))
- 3) Strong FY22 results; Multiple drivers from Chengdu expansion, CMS and US market – 22 Mar 2023 ([link](#))
- 4) NDR Takeaways: Chengdu auto display capacity ramp-up on track; auto intelligence to drive growth – 13 Jan 2023 ([link](#))

Earnings forecasts

Figure 1: P&L forecast

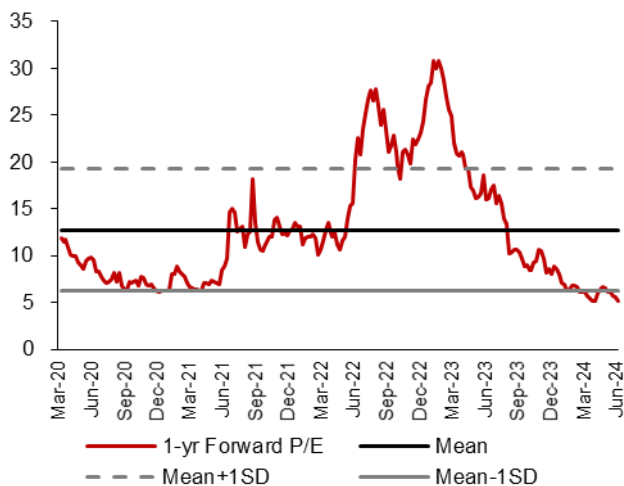
HK\$ mn	2022	1H23	2H23	2023	1H24E	2H24E	2024E	2025E
Revenue	10,722	5,210	5,550	10,760	5,517	6,182	11,699	13,067
YoY	38.6%	7.9%	-5.8%	0.4%	5.9%	11.4%	8.7%	11.7%
Automotive display	9,577	4,646	5,064	9,710	4,925	5,672	10,596	11,910
YoY	47.1%	7.2%	-3.4%	1.4%	6.0%	12.0%	9.1%	12.4%
Industrial display	1,145	564	486	1,050	592	510	1,103	1,158
YoY	-6.8%	13.7%	-25.1%	-8.3%	5.0%	5.0%	5.0%	5.0%
Operating profit	670	241	329	570	314	352	667	765
OPM (%)	6.3%	4.6%	5.9%	5.3%	5.7%	5.7%	5.7%	5.9%
...YoY	91.5%	-12.4%	-16.8%	-15.0%	30.6%	7.1%	17.0%	14.7%
Net profit	582	203	273	475	270	303	573	658
NPM (%)	5.4%	3.9%	4.9%	4.4%	4.9%	4.9%	4.9%	5.0%
...YoY	77.7%	-19.3%	-17.7%	-18.4%	33.5%	11.1%	20.7%	14.7%

Source: Company data, CMBIGM estimates

Valuation

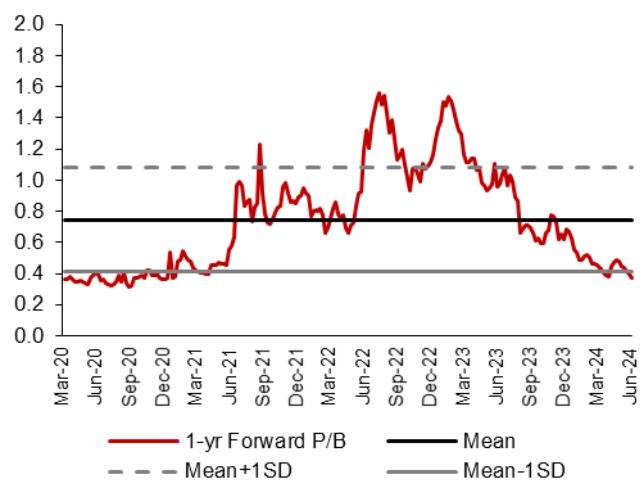
Maintain BUY and our TP of HK\$10.94 is based on 15x FY24E P/E. We are positive on BOEVx's order wins, Chengdu UTR ramp-up, overseas expansion and auto display leadership under the smart cockpit trend. Trading at 6.5x/5.7x FY24/25E P/E (1-sd below 4-year avg.), the stock is attractive in our view.

Figure 2: 12M forward P/E band



Source: Company data, CMBIGM

Figure 3: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	7,738	10,722	10,760	11,699	13,067	14,372
Operating expenses	7,388	10,052	10,191	11,032	12,303	13,503
Operating profit	350	670	570	667	765	870
EBITDA	513	841	771	866	948	1,071
Other income/expense	(0)	(0)	(4)	0	0	0
Others	(1)	(12)	(25)	0	0	0
Pre-tax profit	349	658	540	667	765	870
Income tax	(39)	(98)	(59)	(93)	(107)	(122)
After tax profit	328	582	475	573	658	748
Net profit	328	582	475	573	658	748
Adjusted net profit	328	582	475	573	658	748

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	4,853	6,611	8,097	4,602	8,086	4,625
Cash & equivalents	2,267	2,819	3,501	2,467	2,703	1,750
Account receivables	1,744	2,158	2,556	1,859	3,072	2,352
Inventories	833	1,568	1,947	182	2,218	429
Other current assets	9	66	26	26	26	26
Non-current assets	690	1,673	1,937	2,815	3,631	4,540
PP&E	583	1,490	1,760	2,638	3,454	4,363
Other non-current assets	107	182	177	177	177	177
Total assets	5,543	8,283	10,034	7,417	11,717	9,165
Current liabilities	2,168	4,103	5,023	2,004	5,845	2,754
Account payables	2,136	3,390	4,738	1,720	5,560	2,470
Tax payable	17	65	14	14	14	14
Other current liabilities	15	648	271	271	271	271
Non-current liabilities	29	64	601	601	601	601
Other non-current liabilities	29	33	218	218	218	218
Total liabilities	2,198	4,167	5,624	2,606	6,446	3,356
Share capital	184	198	198	198	198	198
Other reserves	2,848	3,867	4,156	4,557	5,018	5,555
Total shareholders equity	3,346	4,116	4,410	4,811	5,272	5,809
Total equity and liabilities	5,543	8,283	10,034	7,417	11,717	9,165

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	349	658	540	667	765	870
Depreciation & amortization	160	(193)	(224)	(257)	(293)	(334)
Change in working capital	217	105	572	(557)	591	(581)
Others	(10)	(98)	(59)	(93)	(107)	(122)
Net cash from operations	665	471	829	(240)	956	(167)
Investing						
Capital expenditure	(247)	(483)	(430)	(468)	(523)	(575)
Others	(8)	0	0	0	0	0
Net cash from investing	(254)	(483)	(430)	(468)	(523)	(575)
Financing						
Dividend paid	(36)	(182)	(150)	(172)	(197)	(211)
Others	246	0	0	0	0	0
Net cash from financing	210	(182)	(150)	(172)	(197)	(211)
Net change in cash						
Cash at the beginning of the year	1,628	2,267	2,819	3,501	2,467	2,703
Exchange difference	19	745	434	(154)	0	0
Cash at the end of the year	2,267	2,819	3,501	2,467	2,703	1,750
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	70.9%	38.6%	0.4%	8.7%	11.7%	10.0%
Operating profit	397.0%	91.5%	(15.0%)	17.0%	14.7%	13.7%
EBITDA	137.5%	63.9%	(8.3%)	12.3%	9.5%	13.0%
Net profit	377.6%	77.7%	(18.4%)	20.7%	14.7%	13.7%
Adj. net profit	377.6%	77.7%	(18.4%)	20.7%	14.7%	13.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Operating margin	4.5%	6.3%	5.3%	5.7%	5.9%	6.1%
EBITDA margin	6.6%	7.8%	7.2%	7.4%	7.3%	7.5%
Adj. net profit margin	4.2%	5.4%	4.4%	4.9%	5.0%	5.2%
Return on equity (ROE)	10.7%	15.6%	11.1%	12.4%	13.0%	13.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	0.0	0.3	(0.5)	0.2	(0.4)
Current ratio (x)	2.2	1.6	1.6	2.3	1.4	1.7
Receivable turnover days	68.5	66.4	68.9	68.9	68.9	68.9
Inventory turnover days	38.9	50.0	40.1	40.1	40.1	40.1
Payable turnover days	91.9	115.1	121.7	121.7	121.7	121.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	10.6	6.1	7.9	6.5	5.7	5.0
P/B	0.6	0.4	0.4	0.5	0.3	0.4
Div yield (%)	318.5	513.9	401.0	458.7	526.0	561.4
EV	3,345.6	4,115.8	4,409.7	4,811.1	5,271.5	5,809.0
EV/Sales	0.4	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	6.5	4.9	5.7	5.6	5.6	5.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.